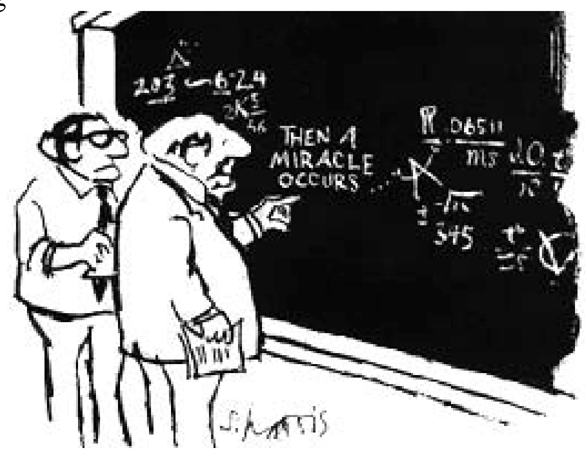
Privatization Is Not a “Third Way”
There’s No Free Lunch

Privatization is often billed as a painless way to “preserve” Social Security without requiring benefit cuts or tax increases. Nothing could be further from the truth. Privatization digs the hole deeper, and costs more – not less – than preserving traditional Social Security.

It also relies on the so-called “magic asterisk” – some unspecified way to raise the trillions of additional dollars needed to pay for privatization. Taxes would have to be raised or benefits cut – or federal borrowing would reach unprecedented levels – in order to pay the benefits promised by privatization. Without these revenues – borrowed or raised outright – the plans collapse and benefits for retirees, disabled workers and survivors cannot be paid.



“I’m not so sure about Step Two ...”

Privatization takes trillions of dollars out of the Social Security Trust Funds

- The main privatization plan developed by the President’s Social Security commission would drain $2.2 trillion out of the Social Security Trust Funds in just the next 10 years. (Calculations drawn from *2002 Social Security Trustees Report*, table VI.E7; and memorandum prepared Social Security actuary on the three plans of the President’s commission, 1/31/, 02, p. 39)

- The enormous budget deficits created by the Bush Administration’s reckless policies mean there is no money available to make up for this $2.2 trillion loss to the Trust Funds – or the additional trillions that will be diverted from Social Security in future years. If additional revenue is not brought in by raising taxes, Social Security could not pay full benefits as a result of this privatization scheme.

Privatization makes the problem worse, not better

- Privatization exhausts the Trust Funds’ reserves in 2021 – two decades sooner than projected under current law. (Actuarial memorandum, p. 69)

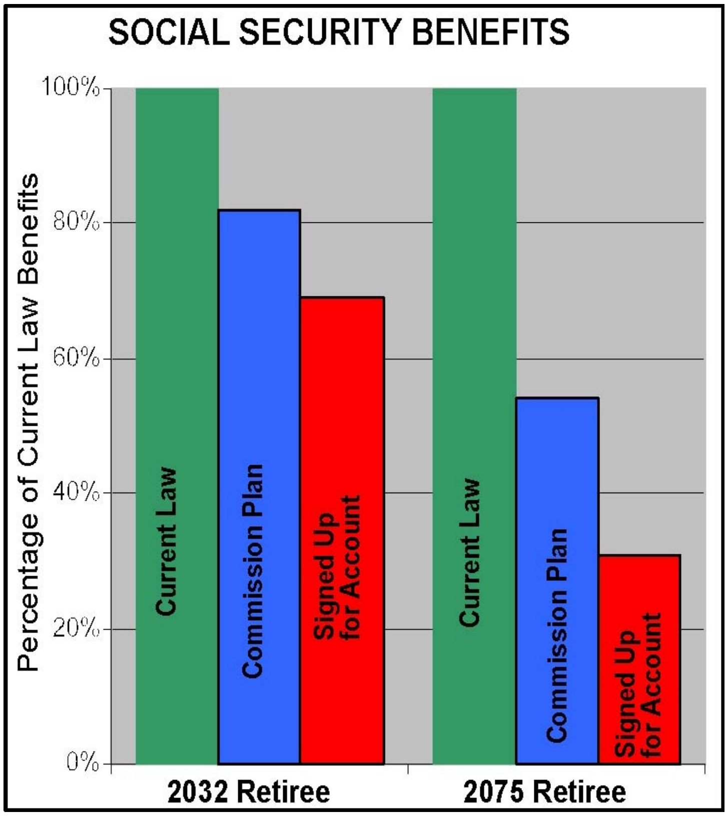
- In order to make up this loss and continue to pay promised benefits, privatization plans need to get money from somewhere else. Yet virtually no plan explains how it would obtain the needed funds. If the funds are not made available, then benefits would have to be cut, or federal borrowing increased to unprecedented levels.

- The *2004 Economic Report of the President* showed just how privatization explodes the national debt. Under the commission’s plan, the debt would be higher for nearly 60 years. It would create new debt (on top of that projected under current law) equal to 24 percent of GDP. (pp. 143-4)

- In fact, the *Economic Report of the President* makes quite clear that current workers have little to gain from privatization: "Much of the benefit of advance funding...occurs outside of the 75-year projection period." (p. 139). In other words, privatization is a reform whose alleged benefits won't be felt until after everyone now paying into the system is dead.

Privatization means huge cuts in Social Security benefits for retirees, disabled workers and survivors

- A chief goal of the President's Social Security reform, as described in the Social Security chapter of the 2004 *Economic Report of the President,* is to cut Social Security benefits. (pp. 129, 142, 143)



- The commission's plan would cut benefits by 18 percent for everyone retiring in 2032, and by 46 percent for people retiring in 2075. (Actuarial memorandum, p. 75)

- These cuts apply to everyone, not just those who sign up to have an account. (Report of the President's Commission to Strengthen Social Security, 12/01, p. 120, and actuarial memorandum, p. 31, 75)

- Workers would not receive their full Social Security benefit plus the value of their account. Instead, privatization plans impose additional cuts for those with accounts. Under the commission's plan, the extra benefit cut for a retiree in 2032 with an account would be an additional 15 percent, while the 2075 retiree would be cut an extra 23 percent. (Commission report, p. 119, and actuarial memorandum, p. 75)